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"To enrich lives through effective and caring service"

October 5, 2015

To: Mayor Michael D. Antonovich
Supervisor Hilda L. Solis
Supervisor Mark Ridley-Thomas
Supervisor Sheila Kuehl
Supervisor Don Knabe

From: Dave Chittenden 
Chief Deputy Director

Subject: **BOARD MOTION OF JUNE 9, 2015, AGENDA ITEM 4 REPORT ON A
STRATEGIC PLAN FOR DRAWING DOWN CAP & TRADE PROGRAM
FUNDS**

On June 9, 2015 your Board approved the Countywide Environmental Sustainability Policy which had been developed by the Internal Services Department (ISD), the Department of Public Works (DPW), and the Department of Regional Planning (DRP) to succeed the County Energy and Environmental Policy which expired at the end of calendar year 2014. This policy approved the formation of the County Sustainability Council (CSC).

Your Board also adopted a motion instructing the Sustainability Council, upon its establishment, to report back to the Board in writing within 90 days with a Countywide Strategic Plan for drawing down Cap & Trade Program funds and to report back to the Board on a quarterly basis thereafter regarding the status of grants that have been applied for and received.

This report responds to the motion regarding Cap and Trade Program funds.

This Report describes the State's Cap & Trade Program in general, the processes by which Cap & Trade funds are made available, and the current Cap & Trade funding programs that have available funding.

This Report also provides Countywide policy recommendations for drawing down Cap & Trade Program funds and includes immediate actions the County should undertake along with key priorities and objectives which will guide these actions. The Leadership Committee has designated ISD as the lead department in coordinating Cap & Trade activities through the CSC and in reporting status and other accomplishments to your Board.

This report is submitted to your Board under signature of the Director of ISD, as the Chair of the County Sustainability Council Leadership Committee. The contents of this report have been approved by the Directors of the other Leadership Committee member departments.

If you have any questions, please contact me at (323) 267-2103, via email dchittenden@isd.lacounty.gov or have staff contact Howard Choy at (323) 267-2014, via email hchoy@isd.lacounty.gov.

DC:HC

Attachments

c: Executive Officer, Board of Supervisors
Interim Chief Information Officer
County Counsel
Public Works
Regional Planning
Chief Executive Office, Intergovernmental and External Affairs Division
County Sustainability Council

Table of Contents

Cap & Trade Program Overview	2
Governor's Cap & Trade Program Appropriation and Budget thru 2015-16.....	3
Countywide Strategic Plan Recommendations for Drawing Down Cap & Trade Program Funds.....	5

Cap & Trade Program Overview

California's Cap & Trade Program is centered around an auction system where tradable permits (allowances) for emitting greenhouse gases (GHGs) can be purchased from the State on a quarterly basis by entities that must reduce emissions and by market traders and brokers of those allowances. The State's portion of the proceeds from Cap & Trade auctions are deposited in the Greenhouse Gas Reduction Fund (GGRF) where State agencies in the transportation, energy, natural resources, and waste sectors administer the distribution of these funds to qualifying programs and projects.

A number of State statutes require that the GGRF be used to facilitate the achievement of GHG emission reductions to meet the GHG reduction goals of Assembly Bill (AB) 32 (California's Global Warming Solutions Act). The Governor and Legislature then enact GGRF budget appropriations for the various State agencies to implement a variety of programs throughout California that reduce GHG emissions.

State law requires the development of a three-year Investment Plan to identify guidance and priorities for investing and allocating the auction proceeds. The Administration (led by the Department of Finance, in consultation with the California Air Resources Board (CARB) and other State agencies) develops and submits this Investment Plan to the Legislature. The inaugural Investment Plan was approved by the Legislature in 2013. The Investment Plan is updated every three years and must be submitted prior to the release of the Governor's budget proposal each January. Each Investment Plan must identify GHG reduction goals and targets, analyze gaps in current State strategies for meeting GHG reduction goals, and identify priority investments that facilitate feasible and cost-effective GHG reductions.

The State is now developing the second, three year Investment Plan for 2016-17 through 2018-19 fiscal years. CARB will conduct workshops throughout the State to receive public input once the draft Investment Plan is issued. However, input may also be provided directly to the Governor's office, the State regulatory agencies, and the State legislature. Opportunities for the County to engage in this discussion are described further below.

As part of the adoption of last year's State Budget, a long-term Cap & Trade investment strategy was implemented which continuously appropriates 60% of annual cap and trade revenue through 2020 to specific projects (including the State High Speed Rail and the Affordable Housing & Sustainable Communities programs) and designates the other 40% to be appropriated annually either through the budget or legislation to other designated projects.

This year's approved State Budget includes 60% of 2015-16 auction proceeds to public transit, affordable housing, sustainable communities, and high-speed rail (estimated to be \$1.2 billion total). But the 40% funds (conservatively estimated to be \$800 million) were not included in the budget. The Legislature and Governor will decide on additional cap-and-trade funding allocations in separate legislation in the coming months.

Governor's Cap & Trade Program Appropriation and Budget thru 2015-16

The current Investment Plan for Cap & Trade Program funds under the Governor's past and proposed Budgets is highlighted in the table below.

Clean Transportation		
Agency	Program	Amount
California High Speed Rail Authority	High Speed Rail Planning/Design, Initial Acquisition and Construction	\$500 m.
California State Transportation Agency, California Transportation Commission	Transit and Intercity Rail Capital Program	\$265 m.
California Department of Transportation and Local Transit Agencies	Low Carbon Transit Operations Program	\$100 m.
Air Resources Board	Low Carbon Transportation	\$350 m.
Sustainable Communities		
Agency	Program	Amount
Housing and Community Development	Affordable Housing and Sustainable Communities	\$400 m.
Agency	Program	Amount
Energy Efficiency and Clean Energy		
Agency	Program	Amount
Department of Community Services and Development	Low-Income Weatherization	\$140 m.
University of California/California State University	Renewable Energy and Energy Efficiency Projects	\$60 m.
California Energy Commission	Energy Efficiency for Public Buildings	\$40 m.
California Energy Commission/Department of Water Resources	Drought Executive Order – Appliance Rebates	\$30 m.
California Energy Commission/Department of Water Resources	Drought Executive Order – Water and Energy Technology	\$30 m.
California Department of Food and Agriculture	Agricultural Energy Efficiency	\$25 m
Natural Resources and Waste Diversion		
Agency	Program	Amount
Department of Forestry and Fire Protection	Urban Forestry and Forest Health	\$92 m.
Department of Fish and Wildlife	Wetlands and Watershed Restoration	\$65 m
Cal Recycle	Waste Diversion	\$60 m
Department of Food and Agriculture	Healthy Soils	\$20 m

The table above clearly articulates the Governor's and the legislature's focus on clean transportation, sustainable communities, energy efficiency/clean energy, and natural resources and waste diversion programs. Each agency with a GGRF appropriation is responsible for administering its own programs, consistent with the Investment Plan, statutory direction, and CARB guidance. The decisions about how to design programs, select projects for funding, and implement projects rest with each agency. Cap & Trade-related statutes have identified these requirements and priorities for the use of current Cap & Trade Program funds:

- Reduce GHG emissions;
- Maximize economic, environmental, and public health benefits to the State;
- Foster job creation by promoting in-State GHG emission reduction projects carried out by California workers and businesses;
- Complement efforts to improve air quality;
- Direct investment toward the most disadvantaged communities and households in the State;
- Provide opportunities for businesses, public agencies, nonprofits, and other community institutions to participate in and benefit from statewide efforts to reduce GHG emissions;
- Lessen the impacts and effects of climate change on the State's communities, economy, and environment;
- Allocate at least 25 percent of the available proceeds to projects that provide benefits to disadvantaged communities; and
- Allocate at least 10 percent of the available proceeds to projects located within disadvantaged communities.

The process by which the flow of Cap & Trade Program funds flow is indicated below:

1. Cap & Trade Auctions take place.
2. Auction revenues sent to GGRF.
3. Auction revenues (funds) allocated per the GGRF Investment Plan.
4. State Budget or other legislation authorizes use of funds.
5. Funds allocated to State agencies.
6. Air Resource Board Funding Guidelines enforced.
7. Funds allocated thru grants, rebates, vouchers, loans, capital projects.
8. Funds provided to recipients (businesses, individuals, homeowners, non-profits, local/regional agencies, State agencies, universities, Federal agencies, tribal entities).
9. Funds to be spent on projects that reduce GHGs.
10. Results reported to State Agencies by recipients.

Countywide Policy Recommendations for Drawing Down Cap & Trade Program Funds

It is generally accepted by the Countywide Sustainability Council Leadership Committee member departments that the acquisition of Cap & Trade Program funds is a lengthy, complex and highly political process. In particular, the detailed scope and eligibility criteria for projects under the Cap & Trade Programs are typically developed and authorized through State legislation and/or communications with the Governor's Office, the legislature, and the State Agencies themselves. The County's current process for departments to engage in this level of communication and lobbying efforts at Sacramento requires that actions be covered under the County's State Legislative Agenda, and that communications between departments and the Governor's Office, the State legislature and the State Agencies be coordinated through the CEO's Intergovernmental and External Affairs Division (IGEA).

The development of the Investment Plan involves multiple State agencies, each with unique and disparate objectives and authorities. The current Cap & Trade Program funds are used on a variety of programs which may or may not impact, or present opportunities for, the various departments within the County. In most cases the Cap & Trade Programs may warrant cross-departmental coordination. As noted earlier, the current focus of Cap & Trade funding seems to be on clean transportation (e.g.; the State's High Speed Rail project) and sustainable communities planning and development programs.

Opportunities for providing input into the development of the Investment Plan now exist and are expected to be accomplished through submittal of comments at a planned series of Investment Plan public workshops and hearings throughout the rest of this calendar year, or through submittal of comments to CARB. Additional input on the use of the funds may also occur through communications and lobbying activities with the State agencies, the Governor's Office, and the Legislature.

While the CEO's Intergovernmental and External Affairs Division (CEO IGEA) tracks and monitors the State's broad greenhouse gas reduction policies and programs, there is no single office within the County charged with evaluating ongoing funding opportunities or with assisting individual departments in responding to the opportunities available. Furthermore, while the County's State Legislative Agenda has various policies related to reducing greenhouse gas emissions and/or incentivizing local governments to meet AB 32 mandates, the Board has not adopted policies specific to proposals for allocations from the GGRF. This has limited individual departments' ability to work with the CEO IGEA and/or other similarly-interested stakeholders on program development and grant applications.

To the extent that individual or joint departmental collaboration has occurred in formulating strategies or direct applications under Cap & Trade Programs, the County departments shall document them and report back to the Board on these efforts and their results. For example, ongoing coordination under the County's Healthy Design Workgroup between DPR, DRP and DPW has been occurring and will lead to a County proposal under the Sustainable Communities Cap & Trade Funding program. ISD's County Office of Sustainability has also been working with the California Energy

Commission to maintain funds through an ongoing agreement for County energy projects.

In order to prioritize the acquisition of Cap & Trade Program funds, the following policy recommendations are provided as part of the County's Cap & Trade Program Strategy:

- ISD, in coordination with CEO IGEA and the CSC, shall identify, track and update all milestones associated with the development of the next Investment Plan and key GGRF Agency program funding activities, and the CSC shall inform all impacted departments.
- ISD shall facilitate interdepartmental coordination, where applicable, for independent or joint department activities related to Cap & Trade Program funding acquisition.
- The CEO IGEA, working with the CSC, shall develop recommendations regarding legislative policies and priorities for consideration by Board activity specific to Cap & Trade revenues and proposed allocations from the GGRF.
- The CEO IGEA, working with the CSC, shall develop recommendations for advocacy and communication opportunities-related to any policies and priorities adopted as part of the State Legislative Agenda.
- ISD, in coordination with the CSC, shall report back to the Board on a semi-annual basis after the submittal of this Report regarding the status of grants that have been applied for and received.
- ISD, in coordination with the CSC, shall develop and approve a Cap & Trade Program fund list of priorities and objectives

The CSC also recommends these initial priorities and objectives for the use and acquisition of Cap & Trade Program funds as part of this Strategy. As the CSC meets more often and the Cap & Trade Program fund details are made more available, the CSC may recommend adding and/or removing items, or editing this list.

- Energy efficiency, renewable and clean energy generation and distributed generation;
- Waste diversion, land fill gas capture, as well as methods to increase the use of biofuel and other natural gas replacement projects;
- Urban greening;
- Conservation/open space/watershed/working landscapes protection and enhancement;
- Critical riparian, wetland, and coastal resource protection and enhancement;
- Transportation improvements and efficiency, including land use planning;
- Transportation technology, including fleets and other advanced vehicle and fuel technologies;
- Water use efficiency and other conservation projects that drive GHG reductions;
- Local and regional climate planning, project development, and implementation, including development and implementation of climate action plans;
- Other projects that remove barriers to GHG emissions reductions, including community training and engagement projects;
- Innovative, high-impact projects that create new systems or technologies

(concept development) to be deployed at a local or regional level – especially projects that could be tested and duplicated across the state;

- Implementation of existing, proven GHG emission reducing or sequestering projects – especially those projects and programs already adopted by local agencies;
- Emphasis on local governments, special districts, joint powers authorities, and not for profits working in partnership with a local jurisdiction.
- Emphasis on synergies between and among multiple funding sources: AB 118, Carl Moyer, Strategic Growth Council grants, Caltrans Community Development Grants, Local Government Utility Partnership funding, CEC energy programs, and utility energy programs.
- Projects that achieve multi-benefits such as local water supply enhancement via stormwater capture and avoided energy consumption (Water and Energy nexus).
- Projects that address declared state emergency (e.g., drought and wild fire) while achieving multi-benefits via water, energy, and public safety nexus.
- Projects and programs that advance disadvantaged communities, defined as areas with low income consumers and communities that are disproportionately impacted by air pollution.
- Traffic signal synchronization program projects per Assembly Bill 1447.